

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name RIVER VALLEY SCHOOL DISTRICT	County BERRIEN
Audit Date 6/30/04	Opinion Date 9/10/04	Date Accountant Report Submitted to State: 10/11/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) MCMURRAY, MARKS & EDMUNDS			
Street Address 805 VAN BRUNT AVENUE	City ST. JOSEPH	State MI	ZIP 49085
Accountant Signature <i>Michael W. Fayher</i>		Date 9/10/04	



RIVER VALLEY SCHOOL DISTRICT

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION

June 30, 2004

RIVER VALLEY SCHOOL DISTRICT
June 30, 2004

BOARD OF EDUCATION

		<u>Term Expires</u>
Greg Scygiel	President	June 30, 2006
Bonnie Christopher	Vice President	June 30, 2005
Ann Koebel	Secretary	June 30, 2004
Fred Knutel	Treasurer	June 30, 2004
Melissa Boone	Trustee	June 30, 2007
Richard Zeiger	Trustee	June 30, 2008
Susan Oldenburg	Trustee	June 30, 2004

SUPERINTENDENT

Dr. Janet M. Burns

FINANCE COORDINATOR

Cheryl Capiak

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
River Valley School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of River Valley School District (the "District"), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of River Valley School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of River Valley School District as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, River Valley School District has implemented a new financial reporting model, as required by Government Accounting Standards Board No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 30 to 31 are not a required part of the basic financial statements but are supplemental information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise River Valley School District basic financial statement. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 10, 2004, on our consideration of the District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads 'McMurray, Marks & Edmunds'.

McMurray, Marks & Edmunds
September 10, 2004



**Report on Compliance and Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed
In Accordance with *Governmental Auditing Standards***

To the Board of Education of the River Valley School District

We have audited the financial statements of River Valley School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether River Valley School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We also noted certain immaterial instances of noncompliance that we have reported to management of River Valley School District in a separate letter dated September 10, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered River Valley School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect River Valley School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described as follows: The District lacks an appropriate segregation of duties consistent with appropriate control objectives. We understand this is primarily due to financial constraints.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of River Valley School District in a separate letter dated September 10, 2004.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads 'McMurray, Marks & Edmunds'.

McMurray, Marks & Edmunds
September 10, 2004

River Valley School District, a K-12 School District located in Berrien County, Michigan, adopted the provisions of Governmental Accounting Standards Board Statement 34 ("GASB 34") with the enclosed financial statements during the current year. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be discussion and analysis of the financial results for the fiscal year ended June 30, 2004 of the management of River Valley School District ("the School District").

Generally accepted accounting principles in the United States of America ("GAAP") and GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Capital Projects Funds, Permanent Funds, and the School Service Funds which are comprised of: Food Service and Athletics.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

The School District as Trustee — Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. These are excluded activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Summary of Net Assets

The District had \$4,683,082 in net assets as of June 30, 2004. and is summarized in the table below:

Assets:

Cash and cash investments	\$ 1,529,962
Due from other governmental units	874,386
Net capital assets	3,016,805
Other assets	47,427
Total Assets	\$ 5,468,580

Liabilities:

Accounts payable and other accrued liabilities	\$ 698,498
Notes and bonds payable	87,000
Other liabilities	-
Total Liabilities	\$ 785,498

Net Assets

Investment in capital assets - net of related debt	\$ 2,929,805
Restricted for:	
Capital projects	767,319
Other	58,022
Unrestricted	927,936
Total Net Assets	\$ 4,683,082

Analysis of Financial Position

During fiscal year ended June 30, 2004, the District's net assets decreased by \$325,821. A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The District's expenditures from General Fund operations exceeded revenues by \$235,428 for the fiscal year ended June 30, 2004. See the section entitled Results of Operations, below, for further discussion of General Fund operations.

B. Debt Payments

The District made principal payments on long term debt obligations which reduced the amount of the district's long term liabilities. Principal payments made during the year ended June 30, 2004 totaled \$102,244.

Analysis of Financial Position, Concluded**C. Net Investment in Capital Assets**

The District's net investment in capital assets increased by \$79,212 during the year. The net activity for the year is summarized in the following table:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital Assets	\$ 7,720,704	\$ 324,670	\$ -	\$ 8,045,374
Less: accumulated depreciation	(4,783,111)	(245,458)	-	(5,028,569)
Net investment capital outlay	<u>\$ 2,937,593</u>	<u>\$ 79,212</u>	<u>\$ -</u>	<u>\$ 3,016,805</u>

This year, the School District's additions of \$324,670 in capital assets included equipment, building renovations and school buses. A portion of these capital assets were financed with monies received from the §1212 sinking fund mileage in the Building & Site Capital Projects Fund. Additional capital projects are planned for the 2004-2005 fiscal year and the anticipated capital additions are expected to be higher than the 2003-2004 fiscal year. The School District does not own any infrastructure assets.

- D. The River Valley School District has three (3) separate issues outstanding from the Michigan Municipal Bond Authority for which the proceeds were used for renovating its facilities and upgrading equipment. In additions, it has two (2) notes payable with local banks which were used to purchase bus bodies and chassis.

Results of Operations

The District-wide results of operations for the fiscal year ended June 30, 2004 is summarized in the table below:

	June 30, 2004
Revenues:	
General Revenues:	
Property taxes levied for general operations	\$ 3,945,883
State of Michigan unrestricted foundation aid	3,833,727
Other general revenues	196,754
Total general revenues	<u>\$ 7,976,364</u>
Operating Grants:	
Federal	\$ 326,519
State of Michigan	253,168
Total operating grants	<u>\$ 579,687</u>
Charges for Services:	
Food service	\$ 160,243
Other charges for services	131,353
Total charges for services	<u>\$ 291,596</u>
Total revenues	<u>\$ 8,847,647</u>
Expenses:	
Instruction	\$ 4,874,873
Pupil services	389,180
Support services	3,085,469
Community services	18,579
Food service	297,926
Athletics	253,987
Interest on long-term debt	7,996
Depreciation(unallocated)	245,458
Total expenses	<u>\$ 9,173,468</u>
Change in Net Assets	<u>\$ (325,821)</u>
Beginning Net Assets	<u>5,008,903</u>
Ending Net Assets	<u><u>\$ 4,683,082</u></u>

A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan unrestricted aid is determined by the following variables:

- a. State of Michigan State Aid Act per student foundation allowance,
- b. Student Enrollment - Blended at 80 percent of current year fall count and 20 percent of prior year winter count, and
- c. The District's non-homestead levy.

Per Student Foundation Allowance

Annually, the State of Michigan sets the per student foundation allowance. The River Valley School District's net foundation allowance was \$7,247 per student for the 2003-2004 school year. This net amount includes the \$74 per student cut due to a governor's executive order prior to the fiscal year. This amount decreased over the District's 2002-2003 net foundation allowance of \$7,269 per student.

Student Enrollment

The District's student enrollment for the fall count of 2003-2004 was 1,046.3 students. The District's enrollment decreased significantly from the prior year count by 99 students. The following summarizes fall student enrollments in the past five years:

<u>Fiscal Year</u>	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2003 - 2004	1,046.3	(99.02)
2002 - 2003	1,145.3	(53.35)
2001 - 2002	1,198.7	5.07
2000 - 2001	1,193.6	(72.23)
1999 - 2000	1,265.8	(57.72)

Subsequent to year end June 30, 2004, preliminary student enrollments for 2004-2005 indicate that enrollments may decrease by about 30-40 students from 2003-2004.

B. Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes)

The District levies approximately 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property levy for the 2003-2004 fiscal year was \$3,945,883. The non-homestead tax levy has increased by 7.2 percent over the prior year.

B. Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes), concluded

The following summarizes the District's non-homestead levy over the past five years:

<u>Fiscal Year</u>	<u>Non-Homestead Tax Levy</u>	<u>% Increase from Prior Year</u>
2003 - 2004	3,945,883	7.2%
2002 - 2003	3,681,519	7.4%
2001 - 2002	3,429,355	8.9%
2000 - 2001	3,146,534	4.5%
1999 - 2000	3,010,192	4.8%

C. Debt Fund Property

The District's had no debt fund levy during the current fiscal year.

D. Food Sales to Students & Adults (School Lunch Program)

Compared to the prior school year, the School District's food and milk sales to students and adults decreased approximately \$22,200 to \$160,243. Neither school lunch nor milk prices were increased during the year.

The total revenues from Food Service operations were below total expenditures for the year by \$31,395. This was mostly due to a transfer of revenues to the general fund of \$33,100.

E. General Fund Expenditures Budget vs. Actual Five Year History

	<u>Expenditures Preliminary Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Audit</u>	<u>Variance Audit vs. Prelim Budget</u>	<u>Variance Audit vs. Final Budget</u>
2003 - 2004	8,856,433	8,824,953	8,762,934	-1.06%	-0.70%
2002 - 2003	9,157,770	9,445,450	10,247,572	11.90%	8.49%
2001 - 2002	9,107,295	9,218,106	9,250,708	1.57%	0.35%
2000 - 2001	9,319,430	9,575,131	9,372,471	0.57%	-2.12%
1999 - 2000	9,317,339	9,426,963	9,271,282	-0.49%	-1.65%

Five Year Average Over(Under) Budget

2.51%

0.89%

F. General Fund Revenues Budget vs. Actual Five Year History

	Revenues Preliminary Budget	Revenues Final Budget	Revenues Final Audit	Variance: Audit vs. Prelim. Budget	Variance: Audit vs. Final Budget
2003 - 2004	8,856,433	8,601,863	8,527,508	3.71%	0.86%
2002 - 2003	9,160,936	9,204,349	9,149,315	0.13%	0.60%
2001 - 2002	9,039,811	9,457,094	9,406,876	-4.06%	0.53%
2000 - 2001	8,801,430	9,803,011	9,767,603	-10.98%	0.36%
1999 - 2000	9,069,201	9,176,626	9,179,876	-1.22%	-0.04%
Five Year Average: (Over)Under Budget				-2.48%	0.46%

G. Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, River Valley School District amends its budget during the school year. For fiscal year June 30, 2004, the budget was amended in September and December 2003 and March and June 2004. The June 2004 budget amendment was the final budget for the fiscal year.

Change from Original Budget:

General Fund Revenues:

Total Revenues Original Budget	8,856,433	100.00%
Total Revenues Final Amended Budget	8,601,863	97.13%
	<u>\$ 254,570</u>	<u>2.87%</u>

The District's actual general fund revenues differed from the final budget by \$254,570, a variance of 2.87% from final budget.

The final revenue budget reflects the following changes from the original budget:

- The District received less State Aid Foundation monies than originally budgeted, due to lower actual enrollment than projected.

Change from Original Budget:

General Fund Expenditures:

Total Expenditures Original Budget	\$ 8,856,433	100.00%
Total Expenditures Final Amended Budget	8,824,953	99.64%
	<u>\$ 31,480</u>	<u>0.36%</u>

G. Original vs. Final Budget, concluded

The final expenditures budget reflects the following changes from the original budget:

- Certain purchases originally budgeted were not made at or near year-end because the District believes the State Foundation Grant may be frozen in the near future.

Contacting the District's Financial Management

The financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, please contact the Business Office at River Valley School District.

RIVER VALLEY SCHOOL DISTRICT**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 1,529,962
Receivables	17,603
Due from other governmental units	874,386
Inventories	29,824
Total current assets	<u>\$ 2,451,775</u>
Noncurrent assets:	
Capital assets	8,045,374
Less: accumulated depreciation	(5,028,569)
Total noncurrent assets	<u>\$ 3,016,805</u>
Total Assets	<u><u>\$ 5,468,580</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 183,160
Accrued payroll and other liabilities	515,338
Notes and bonds payable, due within one year	47,000
Total current liabilities	<u>\$ 745,498</u>
Noncurrent liabilities:	
Notes and bonds payable, due in more than one year	40,000
Total noncurrent liabilities	<u>\$ 40,000</u>
Total Liabilities	<u>\$ 785,498</u>
Commitments and Contingencies	
Net Assets	
Investment in capital assets - net of related debt	\$ 2,929,805
Restricted for:	
Capital projects	767,319
Other	58,022
Unrestricted	927,936
Total Net Assets	<u>\$ 4,683,082</u>
Total Liabilities and Net Assets	<u><u>\$ 5,468,580</u></u>

See accompanying notes to the financial statements.

RIVER VALLEY SCHOOL DISTRICTSTATEMENT OF ACTIVITIES
JUNE 30, 2004

Functions/Programs	Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Primary government -				
Governmental activities:				
Instruction	\$ 4,874,873	\$ 56,028	\$ 440,299	\$ (4,378,546)
Pupil services	389,180	-	-	(389,180)
Support services	3,085,469	35,597	-	(3,049,872)
Community services	18,579	-	-	(18,579)
Food services	297,926	160,243	139,388	1,705
Athletics	253,987	39,728	-	(214,259)
Interest on long-term debt	7,996	-	-	(7,996)
Depreciation (unallocated)	245,458	-	-	(245,458)
	<u>\$ 9,173,468</u>	<u>\$ 291,596</u>	<u>\$ 579,687</u>	<u>\$ (8,302,185)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				\$ 3,945,883
State aid not restricted to specific purposes				3,833,727
Interest and investment earnings				19,502
Other				<u>177,252</u>
Total general revenues				<u>\$ 7,976,364</u>
Change in Net Assets				<u>\$ (325,821)</u>
Net Assets - beginning of year				<u>5,008,903</u>
Net Assets - end of year				<u>\$ 4,683,082</u>

See accompanying notes to the financial statements.

RIVER VALLEY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Building & Site Capital Projects Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
Assets				
Cash and investments	\$ 684,788	\$ 783,188	\$ 61,986	\$ 1,529,962
Receivables	17,603	-	-	17,603
Due from other governmental units	871,612	-	2,774	874,386
Due from other governmental funds	33,100	-	-	33,100
Inventories	26,345	-	3,479	29,824
Total Assets	<u><u>\$ 1,633,448</u></u>	<u><u>\$ 783,188</u></u>	<u><u>\$ 68,239</u></u>	<u><u>\$ 2,484,875</u></u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 167,291	\$ 15,869	\$ -	\$ 183,160
Accrued salaries and withholdings	511,876	-	3,462	515,338
Due to other governmental funds	-	-	33,100	33,100
Total Liabilities	<u><u>\$ 679,167</u></u>	<u><u>\$ 15,869</u></u>	<u><u>\$ 36,562</u></u>	<u><u>\$ 731,598</u></u>
Fund Balance				
Reserved for inventories	\$ 26,345	\$ -	\$ 3,479	\$ 29,824
Reserved for other purposes	-	-	28,318	28,318
Reserved for capital projects	-	767,319	-	767,319
Unreserved and undesignated	927,936	-	-	927,936
Unreserved and undesignated - food service	-	-	(120)	(120)
Unreserved and undesignated - athletics	-	-	-	-
Total Fund Balance	<u><u>\$ 954,281</u></u>	<u><u>\$ 767,319</u></u>	<u><u>\$ 31,677</u></u>	<u><u>\$ 1,753,277</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 1,633,448</u></u>	<u><u>\$ 783,188</u></u>	<u><u>\$ 68,239</u></u>	<u><u>\$ 2,484,875</u></u>

See accompanying notes to the financial statements.

RIVER VALLEY SCHOOL DISTRICT**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS
JUNE 30, 2004**

Total Fund Balances - Governmental Funds 1,753,277

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

Cost of the capital assets 8,045,374

Accumulated depreciation (5,028,569)

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Bonds payable (87,000)

Total net assets - Governmental activities \$ 4,683,082

See accompanying notes to the financial statements.

RIVER VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Building & Site Capital Projects Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Property taxes	\$ 3,945,883	\$ -	\$ -	\$ 3,945,883
Local sources	105,758	3,200	199,971	308,929
State sources	4,067,045	-	19,850	4,086,895
Federal sources	206,981	-	119,538	326,519
Interdistrict sources	159,919	-	-	159,919
Earnings on investments	8,822	9,774	906	19,502
Total Revenues	<u>\$ 8,494,408</u>	<u>\$ 12,974</u>	<u>\$ 340,265</u>	<u>\$ 8,847,647</u>
Expenditures				
Current:				
Instruction	\$ 4,874,873	\$ -	\$ -	\$ 4,874,873
Pupil services	389,180	-	-	389,180
Supporting services	2,903,278	55,090	553,047	3,511,415
Community services	18,579	-	-	18,579
Debt service	110,240	-	-	110,240
Capital outlay	126,560	198,110	-	324,670
Intergovernmental payments	125,967	-	-	125,967
Total Expenditures	<u>\$ 8,548,677</u>	<u>\$ 253,200</u>	<u>\$ 553,047</u>	<u>\$ 9,354,924</u>
Expenditures	<u>\$ (54,269)</u>	<u>\$ (240,226)</u>	<u>\$ (212,782)</u>	<u>\$ (507,277)</u>
Other Financing Sources (Uses)				
Operating transfers in	\$ 33,100	\$ -	\$ 214,259	\$ 247,359
Proceeds from the issuance of bonds	-	-	-	-
Payment to bond escrow agent				
Principal	-	-	-	-
Interest and fees	-	-	-	-
Operating transfers out	(214,259)	-	(33,100)	(247,359)
Total Other Financing Sources(Uses)	<u>\$ (181,159)</u>	<u>\$ -</u>	<u>\$ 181,159</u>	<u>\$ -</u>
Net Change in Fund Balances	\$ (235,428)	\$ (240,226)	\$ (31,623)	\$ (507,277)
Fund Balances - Beginning of year	1,189,709	1,007,545	63,300	2,260,554
Fund Balances - End of year	<u>\$ 954,281</u>	<u>\$ 767,319</u>	<u>\$ 31,677</u>	<u>\$ 1,753,277</u>

See accompanying notes to the financial statements.

RIVER VALLEY SCHOOL DISTRICT**RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ (507,277)

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation.

Depreciation expense	(245,458)
Capital outlay	<u>324,670</u>
Total	<u>\$ 79,212</u>

Repayment of bond principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces
long-term debt)

\$ 102,244

Change in Net Assets of Governmental Activities \$ (325,821)

See accompanying notes to the financial statements.

RIVER VALLEY SCHOOL DISTRICT**STATEMENT OF FIDUCIARY NET ASSETS****FIDUCIARY FUNDS****JUNE 30, 2004****Agency Fund-****Student Activities****Assets:**

Cash and cash equivalents

\$ 70,488

Certificate of deposit

31,524

\$ 102,012**Liabilities:**

Due to student groups

\$ 102,012*See accompanying notes to the financial statements.*

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the River Valley School District (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units and with the rules prescribed in the accounting manual by the Michigan Department of Education. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board ("GASB") for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts' reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District Wide and Fund Financial Statements

The District-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements — The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

District-Wide Statements (concluded) — Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements — Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund

The Building & Site Capital Projects Fund is the School District's capital project fund for the resources and building expenditures for various projects.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The District has the following:

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Services Fund.

Permanent Funds are used to account for the District's non-expendable scholarship where only the earnings are used to issue scholarships.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Fund Based Statements (Concluded)**

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Student Activity Fund — The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments — Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables — In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. For River Valley School District, taxpayers in the Townships of Baroda, Buchanan, Chickaming, Galien, Lake, New Buffalo, Ornoko, Three Oaks, and Weesaw properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. For Chickaming Township only, 50% of the taxes are due September 15. These Townships represented 100 percent of the District’s taxable valuation for the 2004 levy. The final collection date is February 28, after which uncollected taxes are added to the Berrien County delinquent tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state’s School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year is recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories and Prepaid Items — Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory and deferred revenue until used.

Inventories and Prepaid Items (concluded) — Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements

Capital Assets — Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The school district does not have infrastructure type assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years
Land Improvements	10-20 years

Compensated Absences — The liability for compensated absences, if any, reported in the government-wide statements consists of unpaid, accumulated annual and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations — In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Fund Equity — In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data — Comparative data is not included in the district's financial statements.

Accounting Change — Effective July 1, 2003, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* ("GASB 34"). Changes to the School District's financial statements as a result of GASB 34 are as follows:

A Management's Discussion and Analysis ("MD&A") section providing analysis of the School District's overall financial position and results of operations has been included.

District-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using full accrual accounting for all of the School District's activities have been provided.

The following table summarizes the differences between fund balance as reported in the prior year financial statements and the beginning net assets as reported in the Statement of Activities.

Total Prior Year Fund Balances - Governmental Funds	\$ 2,260,554
--	---------------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

Cost of the capital assets	7,720,704
Accumulated depreciation	(4,783,111)

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds payable	(168,000)
Notes payable	(21,244)

Total prior year net assets - Governmental activities	\$ 5,008,903
--	---------------------

Estimates — The process of preparing financial statements in conformity with accounting principals generally accepted in the United States of America requires the use of management estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e. the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were four amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be re-appropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The school district had expenditures that exceeded appropriations in the following budgeted functions:

	Final Budget	Final Actual	Variance
<i>General Fund</i>			
Instruction-Middle School	\$ 552,127	\$ 578,343	\$ (26,216)
Instruction-High School	879,541	1,357,343	(477,802)
Instruction-Preschool	41,044	43,562	(2,518)
Instruction-Technical Education	150,953	151,032	(79)
Pupil services	346,218	389,180	(42,962)
Supporting services-improvement of instruction	2,951	28,916	(25,965)
Supporting services-media services/audio-visual	84,750	117,321	(32,571)
Supporting services-information management services	122,171	143,983	(21,812)
Supporting services-executive	146,365	186,584	(40,219)
Supporting services-principal	504,083	632,865	(128,782)
Supporting services-business	161,064	255,761	(94,697)
Supporting services-operations	789,593	930,272	(140,679)
Supporting services-other pupil activity	2,530	25,629	(23,099)
Community services	17,834	18,579	(745)
Debt service	110,231	110,240	(9)
Capital outlay	126,550	126,560	(10)
<i>Building & Site Capital Projects Fund</i>			
Supporting services	\$ -	\$ 55,090	\$ (55,090)

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and the excess had no impact on the financial results of the school District. Also, the State of Michigan mandated a new chart of account system, and some line item adjustments did not get made to the budget amounts before year-end.

NOTE 3. DEPOSITS AND INVESTMENTS

At year-end, the school district's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 1,503,134	\$ 70,488	\$ 1,573,622
Certificate of deposits	23,034	31,524	54,558
Investments	3,794	-	3,794
	<u>\$ 1,529,962</u>	<u>\$ 102,012</u>	<u>\$ 1,631,974</u>

The breakdown between deposits and investments for the school district is as follows:

Deposits (checking and savings accounts)	\$ 1,573,622
Certificate of deposits	54,558
Investments in securities, mutual funds, and similar vehicles	3,794
	<u>\$ 1,631,974</u>

The deposits of the School District were reflected in the accounts of the Financial Institution at \$1,710,211, of which \$739,069 is covered by federal depository insurance. State statutes and the School District's investment policy authorize the district to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; the district is allowed to invest in U.S. Treasury or Agency obligation, U.S. Government repurchases agreements, bankers' acceptances, commercial paper rated prime at the time of purchases which mature not more than 270 days after the date of purchases, mutual funds and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District's investments at June 30, 2004 were bank investment pools and interlocal agreement investment pools that had a carrying amount and market value of \$3,794. The bank investment pools are regulated by the Michigan Banking Act and the investments under the interlocal agreement (MILAF) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Investments are normally categorized to give an indication of the level of risk assumed by the School District; however, bank investment pools and interlocal agreement investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

RIVER VALLEY SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2004****NOTE 4. CAPITAL ASSETS**

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Assets not being depreciated:				
Land	\$ 49,645	\$ -	\$ -	\$ 49,645
Capital assets being depreciated:				
Building and building improvements	\$ 5,672,323	\$ 198,110	\$ -	\$ 5,870,433
Land improvements	525,244	-	-	525,244
Buses and other vehicles	843,562	113,882	-	957,444
Furniture and equipment	629,930	12,678	-	642,608
Subtotal	\$ 7,671,059	\$ 324,670	\$ -	\$ 7,995,729
Accumulated depreciation:				
Building and building improvements	\$ 3,456,369	\$ 112,117	\$ -	\$ 3,568,486
Land improvements	396,765	17,840	-	414,605
Buses and other vehicles	561,569	79,014	-	640,583
Furniture and equipment	368,408	36,487	-	404,895
Subtotal	\$ 4,783,111	\$ 245,458	\$ -	\$ 5,028,569
Net capital assets being depreciated	\$ 2,887,948			\$ 2,967,160
Net capital assets	\$ 2,937,593			\$ 3,016,805

Depreciation expense was not charged to activities as the district considers its assets to impact multiple activities and allocation is not practical.

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The general fund collects monies that relate to the capital projects and debt service funds and repays those monies as expenditures are incurred, which could be in excess of one year. The general fund also transfers monies to the athletic fund to subsidize athletic activities.

The composition of interfund balances is as follows:

Due To/From Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	\$ 33,100

Interfund Transfers:

Transfer In:	Transfer Out:	Amount
General Fund	Other Governmental Funds	\$ 33,100
Other Governmental Funds	General Fund	\$ (214,259)

NOTE 6. LONG-TERM DEBT

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district

Long-term obligation activity can be summarized as follows:

	Beginning			Ending	Due Within
	Balance	Additions	Reductions	Balance	One Year
<i>Governmental Activities:</i>					
Bonds	\$ 168,000	\$ -	\$ (81,000)	\$ 87,000	\$ 47,000
Notes Payable	21,244	-	(21,244)	-	-
Total bonds and notes payable	<u>\$ 189,244</u>	<u>\$ -</u>	<u>\$ (102,244)</u>	<u>\$ 87,000</u>	<u>\$ 47,000</u>
 Total Long-term debt and other	 <u>\$ 189,244</u>	 <u>\$ -</u>	 <u>\$ (102,244)</u>	 <u>\$ 87,000</u>	 <u>\$ 47,000</u>

Annual debt service requirements to maturity for the above Governmental bond and note obligations are as follows:

	<i>Governmental Activities:</i>		
	Principal	Interest	Total
2005	\$ 47,000	\$ 3,226	\$ 52,231
2006	20,000	1,205	23,211
2007	<u>20,000</u>	<u>405</u>	<u>22,412</u>
	<u>\$ 87,000</u>	<u>\$ 4,836</u>	<u>\$ 97,854</u>

NOTE 6. LONG-TERM DEBT (CONCLUDED)

Governmental Activities:

General obligation bonds consist of:

\$320,000-1995 Energy Conservation Bonds; payable in annual installments of \$25,000 to \$40,000 beginning 5/1/95 through 5/1/04; interest at 5.26%.	\$ -
\$38,000-Michigan Municipal Bond Authority; Revenue Bonds-Series 2003; payable in annual installments of \$5,481 to \$7,308 beginning 11/1/03 through 11/1/06; interest at 3.60% to 4.05%.	21,558
\$66,000-Michigan Municipal Bond Authority; Revenue Bonds-Series 2003; payable in annual installments of \$9,519 to \$12,692 beginning 11/1/03 through 11/1/06; interest at 3.60% to 4.05%.	37,442
\$150,000-Michigan Municipal Bond Authority; Revenue Bonds-Series 1999; payable in annual installments of \$8,973 to \$18,401 beginning 05/01/02 through 05/01/05; interest at 3.50% to 4.45%.	28,000
Total bonds payable	<u>\$ 87,000</u>
 Total long-term debt	 <u><u>\$ 87,000</u></u>

NOTE 7. RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to workers' compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 8. DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals were 12.99 percent for the period July 1, 2003 through June 30, 2004 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2004, 2003, and 2002 were \$795,395, \$1,013,134 and \$1,026,972, respectively.

Post Employment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage's. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

NOTE 9. BUILDING AND SITE SINKING FUND EXPENDITURES

Pursuant to Public Act 451 of 1976, as amended, the District has levied a sinking fund tax which must comply with §1212 of the School Code and the interpretations of the Department of Treasury. The sinking fund tax was voted and approved by the District electors for 1 mill for three year beginning with the 1999 calendar year.

The District received written approval from the Department of Treasury for the sinking fund expenditures prior to spending any of the tax revenues. As of June 30, 2004, the District has expended \$1,033,421 of the building and site revenues and a review of those expenditures has determined that all monies expended comply with §1212 of the School Code.

RIVER VALLEY SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2004****NOTE 10. RECEIVABLES AND PAYABLES**

Receivables as of year-end for the School District's individual major funds, and the non-major funds and fiduciary funds in the aggregate, including any allowance for uncollectible amounts are as follows:

	General Fund	Nonmajor and Other Funds	Total
Receivables:			
Intergovernmental	\$ 871,612	\$ 2,774	\$ 874,386
Trade	17,603	-	17,603
	<u>\$ 889,215</u>	<u>\$ 2,774</u>	<u>\$ 891,989</u>

Payables as of year-end for the School District's individual major funds, and the non-major and fiduciary funds in the aggregate, are as follows:

	General Fund	Nonmajor and Other Funds	Total
Payables:			
Trade	<u>\$ 167,291</u>	<u>\$ 15,869</u>	<u>\$ 183,160</u>

NOTE 11. RECONCILIATION OF REPORTED REVENUES TO GRANTS SECTION AUDITORS REPORT (R7120)

The following reconciles the current year reported federal revenues on the fund level with the R7120 report:

Federal sources per general fund	\$ 206,981
Federal sources per special revenue fund (food service)	119,538
Total reported per current year financial statements	<u>\$ 326,519</u>
<i>Less:</i>	
Items passed-through Berrien County I.S.D.	(17,313)
U.S.D.A. Food Distribution Commodities	(19,025)
Current year accrued revenue	(99,106)
<i>Add:</i>	
State grant 036620 M-24	5,496
State grant 036650 66	6,629
Prior year accrued revenue	226,541
Current year payments received per R7120	<u><u>\$ 429,741</u></u>

**REQUIRED SUPPLEMENTAL
INFORMATION**

RIVER VALLEY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY SCHEDULE BUDGETARY COMPARISON SCHEDULE — GENERAL FUND JUNE 30, 2004

	Original Budget	Final Amended Budget	Actual
Revenues			
Property taxes	\$ 3,945,666	\$ 3,944,707	\$ 3,945,883
Local sources	83,847	87,834	105,758
State sources	4,460,267	4,091,254	4,067,045
Federal sources	221,504	257,956	206,981
Interdistrict sources	94,650	159,919	159,919
Earnings on investments	20,000	8,500	8,822
Total Revenues	\$ 8,825,934	\$ 8,550,170	\$ 8,494,408
Expenditures - Current			
Instruction:			
Elementary	\$ 2,655,744	\$ 2,597,882	\$ 2,022,681
Middle School	58,245	552,127	578,343
High School	1,375,500	879,541	1,357,343
Preschool	39,601	41,044	43,562
Summer School	42,900	13,470	13,144
Special Education	654,218	591,270	581,688
Compensatory Education	100,918	127,289	125,231
Technical Education	135,049	150,953	151,032
Driver's education	13,258	1,931	1,849
Pupil Services	286,161	346,218	389,180
Supporting services:			
Improvement of instruction	38,298	2,951	28,916
Media sedrvices/audiovisual	97,399	84,750	117,321
Information management services	129,675	122,171	143,983
Board of education	62,733	83,854	67,363
Executive	197,851	146,365	186,584
Principal	433,338	504,083	632,865
Business	129,276	161,064	255,761
Operations	706,933	789,593	930,272
Pupil transportation	1,089,747	1,015,380	514,584
Other pupil activity	46,762	2,530	25,629
Community services	39,465	17,834	18,579
Debt service	162,520	110,231	110,240
Capital outlay	13,000	126,550	126,560
Intergovernmental payments	126,306	141,613	125,967
Total Expenditures	\$ 8,634,897	\$ 8,610,694	\$ 8,548,677
Excess (Deficiency) of Revenues over Expenditures	\$ 191,037	\$ (60,524)	\$ (54,269)
Other Financing Sources (Uses)			
Operating transfers in	\$ 30,500	\$ 51,693	\$ 33,100
Operating transfers out	(221,539)	(214,259)	(214,259)
Total other financing sources (uses)	\$ (191,039)	\$ (162,566)	\$ (181,159)
Net Change in Fund Balances	\$ (2)	\$ (223,090)	\$ (235,428)
Fund Balances - Beginning of year	1,189,709	1,189,709	1,189,709
Fund Balances - End of year	\$ 1,189,707	\$ 966,619	\$ 954,281

RIVER VALLEY SCHOOL DISTRICT**REQUIRED SUPPLEMENTARY SCHEDULE****BUDGETARY COMPARISON SCHEDULE — BUILDING & SITE: CAPITAL PROJECTS FUND****JUNE 30, 2004**

	Original Budget	Final Amended Budget	Actual
Revenues			
Local sources	\$ -	\$ -	\$ 3,200
Earnings on investments	-	-	9,774
Total Revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,974</u>
Expenditures - Current			
Supporting services:	\$ -	\$ -	\$ 55,090
Capital outlay	-	-	198,110
Total Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 253,200</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (240,226)</u>
Net Change in Fund Balances	\$ -	\$ -	\$ (240,226)
Fund Balances - Beginning of year	<u>1,007,545</u>	<u>1,007,545</u>	<u>107,545</u>
Fund Balances - End of year	<u><u>\$ 1,007,545</u></u>	<u><u>\$ 1,007,545</u></u>	<u><u>\$ (132,681)</u></u>

**OTHER SUPPLEMENTAL
INFORMATION**

RIVER VALLEY SCHOOL DISTRICT

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2004

	Special Revenue Funds			Permanent Fund	Total Non-Major Governmental Funds
	Athletics Fund	Food Service Fund	Total	Scholarship Funds	
Assets					
Cash and investments	\$ 3,462	\$ 30,206	\$ 33,668	\$ 28,318	\$ 61,986
Receivables	-	-	-	-	-
Due from other governmental units	-	2,774	2,774	-	2,774
Due from other governmental funds	-	-	-	-	-
Inventories	-	3,479	3,479	-	3,479
Prepaid expenditures	-	-	-	-	-
Total Assets	<u>\$ 3,462</u>	<u>\$ 36,459</u>	<u>\$ 39,921</u>	<u>\$ 28,318</u>	<u>\$ 68,239</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued salaries and withholdings	3,462	-	3,462	-	3,462
Due to other governmental funds	-	33,100	33,100	-	33,100
Total Liabilities	<u>\$ 3,462</u>	<u>\$ 33,100</u>	<u>\$ 36,562</u>	<u>\$ -</u>	<u>\$ 36,562</u>
Fund Balance					
Reserved for inventories	\$ -	\$ 3,479	\$ 3,479	\$ -	\$ 3,479
Reserved for other purposes	-	-	-	28,318	28,318
Reserved for capital projects	-	-	-	-	-
Unreserved and undesignated	-	-	-	-	-
Unreserved and undesignated - food service	-	(120)	(120)	-	(120)
Unreserved and undesignated - athletics	-	-	-	-	-
Total Fund Balance	<u>\$ -</u>	<u>\$ 3,359</u>	<u>\$ 3,359</u>	<u>\$ 28,318</u>	<u>\$ 31,677</u>
Total Liabilities and Fund Balance	<u>\$ 3,462</u>	<u>\$ 36,459</u>	<u>\$ 39,921</u>	<u>\$ 28,318</u>	<u>\$ 68,239</u>

RIVER VALLEY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>Special Revenue Funds</u>			<u>Permanent Fund</u>	
	<u>Athletics Fund</u>	<u>Food Service Fund</u>	<u>Total</u>	<u>Scholarship Funds</u>	<u>Total Non-Major Governmental Funds</u>
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Local sources	39,728	160,243	199,971	-	199,971
State sources	-	19,850	19,850	-	19,850
Federal sources	-	119,538	119,538	-	119,538
Interdistrict sources	-	-	-	-	-
Earnings on investments	-	-	-	906	906
Total Revenues	<u>\$ 39,728</u>	<u>\$ 299,631</u>	<u>\$ 339,359</u>	<u>\$ 906</u>	<u>\$ 340,265</u>
Expenditures					
Current:					
Instruction and Instructional support services	\$ -	\$ -	\$ -	\$ -	\$ -
Supporting services	253,987	297,926	551,913	1,134	553,047
Community services	-	-	-	-	-
Debt service	-	-	-	-	-
Capital outlay	-	-	-	-	-
Intergovernmental payments	-	-	-	-	-
Total Expenditures	<u>\$ 253,987</u>	<u>\$ 297,926</u>	<u>\$ 551,913</u>	<u>\$ 1,134</u>	<u>\$ 553,047</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (214,259)</u>	<u>\$ 1,705</u>	<u>\$ (212,554)</u>	<u>\$ (228)</u>	<u>\$ (212,782)</u>
Other Financing Sources (Uses)					
Operating transfers in	\$ 214,259	\$ -	\$ 214,259	\$ -	\$ 214,259
Proceeds from the issuance of bonds	-	-	-	-	-
Payment to bond escrow agent					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Operating transfers out	-	(33,100)	(33,100)	-	(33,100)
Total Other Financing Sources (Uses)	<u>\$ 214,259</u>	<u>\$ (33,100)</u>	<u>\$ 181,159</u>	<u>\$ -</u>	<u>\$ 181,159</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ (31,395)</u>	<u>\$ (31,395)</u>	<u>\$ (228)</u>	<u>\$ (31,623)</u>
Fund Balances - Beginning of year	<u>-</u>	<u>34,754</u>	<u>34,754</u>	<u>28,546</u>	<u>63,300</u>
Fund Balances - End of year	<u><u>\$ -</u></u>	<u><u>\$ 3,359</u></u>	<u><u>\$ 3,359</u></u>	<u><u>\$ 28,318</u></u>	<u><u>\$ 31,677</u></u>



September 10, 2004

To the Board of Education
River Valley School District
Three Oaks, MI

In planning and performing our audit of the financial statement of River Valley School District ("School District") for the year ended June 30, 2004, we considered the School District's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control structure and its operation that we consider opportunities for strengthening internal controls and operating efficiency.

SEGREGATION OF DUTIES

Control over cash receipt transactions is limited because of insufficient segregation of duties. The same individual accepts cash receipts; records cash receipts, prepares bank deposits, and makes bank deposits. A second individual does receive the bank statements and prepares the bank reconciliations, adding a level of some control. Due to limited personnel, the School District does not feel further segregation would be warranted from a cost/benefit standpoint.

REVIEW GOVERNMENT ACCOUNTING STANDARD BOARD ("GASB") STATEMENT #40- DEPOSIT AND INVESTMENT RISK DISCLOSURES.

Effective June 30, 2005, governmental entities will be required to expand their current disclosure requirements addressing common risks of deposits and investments. The disclosure requirements apply to debt and an equity investment held directly by the entity or indirectly by the investment advisors and requires that a governmental entity disclose investment policies that are related to custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. If the entity has adopted no policy with respect to a particular risk, that fact should also be part of the disclosure.

The School District should review its investment policies to determine all common risk areas are identified and the appropriate level of risk for each area is quantified.

REVIEW CURRENT CREDIT CARD USE POLICY

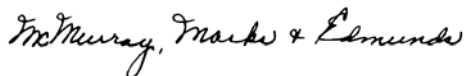
We noted the School District has issued credit cards to various personnel to use for District business. We recommend the School District review their current credit card policy and ensure it meets the appropriate guidelines. Public Act 266 of 1995 authorizes the use of credit cards by the District and by resolution; the District must adopt a written policy that provides those guidelines, as follows, described by Department of Treasury Letter No. 2-96:

REVIEW CURRENT CREDIT CARD USE POLICY (CONCLUDED)

- a) A named officer or employee is responsible for the issuance, accounting, monitoring, and retrieval and generally for overseeing compliance with the credit card policy.
- b) That the credit card may be used only by an officer or employee for the purchase of goods or services for the official business of the School District.
- c) The officer or employee using the credit card must submit documentation detailing the goods or services purchased, cost, date of the purchase, and the official business.
- d) The officer or employee issued the card is responsible for its protection and custody and shall immediately notify the local unit if the card is stolen.
- e) The officer or employee must immediately surrender the card upon termination.
- f) For a system of internal controls to monitor the use of the credit card.
- g) Approval of credit card invoice **before** payment.
- h) That the balance including interest due on an extension of credit under the credit card arrangement shall be paid for not more than 60 days of the initial statement date. The School District shall comply with this provision of the credit card policy.
- i) The policy must provide for disciplinary measures consistent with law for unauthorized use.
- j) Any other matters the governing body considers advisable.
- k) The total combined authorized credit limit of all cards issued by the School District shall not exceed 5% of the total budget of the School District for the current fiscal year. The School District may include in its budget the authorization to pay the balance due on any credit cards, including the annual fee and interest.

The report is intended solely for the information and use of River Valley School District management, and others within the District, and is not intended to be and should not be used by anyone other than these parties.

We appreciate the courtesy and cooperation extended to us by you and members of the School District during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.



McMurray, Marks & Edmunds
St. Joseph, MI